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STATE OF IOWA

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State Auditor Vaudt Reviews Republicans' FY 2005 Budget
Concerns: Cash Reserve Fund depleted and borrowings increased with little clarity or long-range planning

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has finished his review of the Republicans’ proposed Fiscal Year 2005 budget. His findings include:

Depletes the Cash Reserve Fund

“The Republican budget proposes spending \$159.6 million from the Cash Reserve Fund leaving the State with essentially no reserves,” noted Auditor Vaudt. “Given the large structural deficit Iowa faces, taking our remaining cash reserves to balance the FY 2005 budget is contrary to sound fiscal policy. Even when one allows for slightly improving General Fund revenues, depleting the Cash Reserve Fund leaves the State very vulnerable.”

Borrowings Continue to Rise

The Republican budget proposes taking \$218 million from various funds, just as the Governor’s budget does. In addition, by spending the remaining \$159.6 million from the Cash Reserve Fund, the amount of borrowings required by law to be repaid will increase. “This proposed budget adds to our structural deficit,” said Auditor Vaudt. “This is not the time for Iowa to increase its borrowings for on-going expenditures.”

Repayment Plan Missing

“Iowa faces an alarming structural deficit – the citizens of Iowa deserve to know if, when, and how the funds raided will be repaid. It’s time our elected officials develop, implement, and adhere to a repayment plan,” said Auditor Vaudt. “Neither the Republicans’ budget nor the Governor’s budget adequately addresses repaying the millions of borrowings, which current law already requires be repaid. Nor does either budget address the staggering additional \$1.2 billion that will have been taken from over 30 different funds during the last few years,” noted Vaudt.

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Time for Action

It is critical that the appropriate framework be constructed before any Fiscal Year 2006 budget discussions take place. "Iowa's short-term focus has been a key contributor to the alarming structural deficit we face today," noted State Auditor Vaudt. "Iowa must begin implementing sound budgeting principles and developing a long-range financial plan. Iowa's long-range financial plan will serve as the foundation upon which we build our future budgets. Absent this, Iowa will continue to make decisions that balance the current year budget while ignoring the long-term impacts."

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Auditor of State
David A. Vaudt

Comments on
Republicans' Fiscal Year 2005
Budget Recommendations

March 24, 2004
Press Briefing

State of Iowa General Fund

Remarks focus on three primary budgeting issues:

- Use of one-time/limited time resources
- Lack of clarity
- Lack of longer-range focus

State of Iowa
General Fund
Use of One-Time/Limited-Time Resources

- Depletes the Cash Reserve Fund of remaining \$159.6 million
- Increases amount of borrowings that must be repaid in future years
- Relies on an "economic recovery" - Revenue Estimating Conference (REC) raised revenue growth estimates as follows:
 - FY2004 - from 1.2% to 1.8%
 - FY2005 - from 1.6% to 1.8%

State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Republicans' Proposal</u>	<u>Governor's Proposal</u>	<u>Increase (Decrease) Amount</u>	<u>Percentage</u>
Fiscal Year 2005:				
Expenditures	\$4,434.7	\$4,771.4	\$(336.7)	(<u>7.1%</u>)
Expenditures Shifted	<u>378.0</u>	<u>218.4</u>	<u>159.6</u>	
"True Total Expenditures"	<u>\$4,812.7</u>	<u>\$4,989.8</u>	<u>\$(177.1)</u>	(<u>3.5%</u>)

**State of Iowa
General Fund
Lack of Clarity
(\$ in Millions)**

	<u>Expenditures</u>	<u>Expenditures Shifted</u>	<u>"True Total Expenditures"</u>
FY 2000	\$ 4,763.6	-	\$ 4,763.6
FY 2001	\$ 4,886.9	\$ 86.1	\$ 4,973.0
FY 2002	\$ 4,607.5	\$ 265.8	\$ 4,873.3
FY 2003	\$ 4,534.4	\$ 316.5	\$ 4,850.9
Est. FY 2004	<u>\$ 4,491.1</u>	<u>\$ 258.8</u>	<u>\$ 4,749.9</u>
Rec. FY 2005:			
Republicans'	<u>\$ 4,434.7</u>	<u>\$ 378.0</u>	<u>\$ 4,812.7</u>
Governor's	<u>\$ 4,771.4</u>	<u>\$ 218.4</u>	<u>\$ 4,989.8</u>
Republicans':			
FY 2005 v. FY 2000	<u>\$ (328.9)</u>		<u>\$ 49.1</u>
Percentage	<u>(6.9%)</u>		<u>1.0%</u>
Governor's:			
FY 2005 v. FY 2000	<u>\$ 7.8</u>		<u>\$ 226.2</u>
Percentage	<u>0.2%</u>		<u>4.7%</u>

**State of Iowa
General Fund
Lack of Clarity
(\$ in Millions)**

	<u>Republicans'</u>	<u>Governor's</u>
Fiscal Year 2005:		
General Fund - <u>Expenditures</u>	<u>\$4,434.7</u>	<u>\$4,771.4</u>
<u>Expenditures Shifted to:</u>		
Cash Reserve Fund -		
For Property Tax Credits	159.6	0.0
Senior Living Trust Fund -		
For Medicaid	130.6	130.6
Tobacco Related Funds:		
For Medicaid & Substance Abuse	51.4	51.4
For Debt Service Payments	28.9	28.9
Environment First Fund -		
For Soil Conservation and Park Operations	7.5	7.5
	<u>378.0</u>	<u>218.4</u>
General Fund - <u>"True Total Expenditures"</u>	<u><u>\$4,812.7</u></u>	<u><u>\$4,989.8</u></u>

**State of Iowa
General Fund
Lack of Longer-Range Focus
(\$ in Millions)**

Neither the Republicans' nor the Governor's FY2005 budget recommendations make mention of the almost \$550 million that has been borrowed and is required to be repaid. Instead, the Republicans' proposal incorporates \$160 million more in borrowings.

Estimated FY 2004 Cumulative Balances:

Cash Reserve Fund	\$ 66.3
Economic Emergency Fund	222.7
Tobacco Related Funds	141.8
Senior Living Trust Fund	<u>118.0</u>
	548.8

Proposed FY 2005 borrowings from Cash Reserve Fund	<u>159.6</u>
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Estimated FY 2005 Cumulative Balances under Republican proposal	<u><u>\$708.4</u></u>
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These borrowings started in FY 2001 - this is FY 2004, but a repayment plan has still not been developed.

**State of Iowa
General Fund
Lack of Longer-Range Focus
(\$ in Millions)**

Neither the Republicans' nor the Governor's FY 2005 budget recommendations make mention of another over \$930 million taken from over 30 different funds and special accounts where repayment has never been addressed. Instead, both proposals incorporate another \$220 million of additional raiding of funds:

Estimated FY 2004 Cumulative Balances:

Tobacco Related Funds	\$ 305.0*
Senior Living Trust Fund	228.9*
Other funds and special accounts	<u>402.6</u>
	936.5
Proposed FY 2005 additional amounts	<u>218.4</u>
Estimated FY 2005 Balances - Republicans' and Governor's	<u><u>\$1,154.9</u></u>

*These amounts are in addition to the amounts required to be repaid to these funds.

State of Iowa General Fund

What's the bottom line?

Both budget proposals fall short of what Iowans deserve.

Why?

- Both budget proposals ignore the need for a sound and reasonable long-range financial plan for Iowa
- Without a long-range financial plan, it is impossible to appropriately evaluate the alternatives offered in the budget proposals:
 - increased borrowings?
 - increased taxes?
 - long-term impact of each?
- We cannot continue to make budget decisions in a "one-year vacuum" without considering the long-term impact.

State of Iowa General Fund

What do I recommend?

Four critical steps must be taken before any budget proposals are prepared for Fiscal Year 2006:

1. Develop a repayment plan for the borrowings:
 - a) evaluate each fund's cash flow needs
 - b) address priority of repayments
 - c) determine annual repayment amounts
2. Evaluate other funds/special accounts raided:
 - a) decide which funds/special accounts will and will not be repaid
 - b) inform the taxpayers of Iowa of any amounts that will not be repaid and the consequences
 - c) address priority of repayments
 - d) determine annual repayment amounts

State of Iowa General Fund

3. Set financial goals for Iowa and prepare a long-range financial plan:
 - a) bring joint Executive and Legislative committee together
 - b) begin immediately
 - c) set timeline for completion before December 2004
4. Implement a true spending limitation - 99% or 98%